

BILL # HB 2566

TITLE: tax credit; land conservation

SPONSOR: Rosati

STATUS: As Introduced

REQUESTED BY: House

PREPARED BY: Shelli Carol

FISCAL ANALYSIS

Description

HB 2566 provides an individual or corporate income tax credit for a land donation or conservation easement to the state or its political subdivisions. The recipient agency has the right to refuse any offer. The allowed amount is up to 30% of the appraised market value of the qualified open space. Unused portions of the credit may be carried forward and used to offset income taxes for up to five consecutive taxable years.

Estimated Impact

We are unable to determine the cost of this tax credit, as it is difficult to anticipate usage. Currently, 10 states offer income tax credits for land donations and easements. In the respective first years of their programs, these states experienced revenue losses of between \$190,000 (Maryland) and \$8,252,000 (California). By the fourth year of each program, costs ranged from \$90,000 (Delaware) to \$35,000,000 (Colorado). While the proposed legislation differs slightly from existing statutes in other states, Arizona can anticipate a similar loss of revenue. However, the program outlined in this bill is more similar to programs that have experienced low participation in other states.

Analysis

California, Connecticut, Colorado, Delaware, Maryland, Mississippi, New Mexico, North Carolina, South Carolina, and Virginia offer tax credits for land donations and easements. Mississippi's and New Mexico's programs are too new to derive any useful statistical data. Connecticut's program applies solely to corporate income tax. South Carolina provided general information, but no statistical data, and does not appear below.

The first of the following charts displays the spread of credits for six programs in their initial and fourth years. The second chart shows programs' growth over their first few years.

State	Initial Year Credits (Thousands)	Fourth Year Credits (Thousands)
<i>High-Participation Average</i>	\$4,130	\$18,064
California	\$8,252	Not available
Colorado	\$4,381	\$35,000
North Carolina*	\$1,671	\$1,127
Virginia	\$2,217	Not available
<i>Low-Participation Average</i>	\$225	\$90
Delaware	\$260	\$90
Maryland	\$190	Not available

* Began in 1983 as a test program with very low incentives. Initial year represents 1989. Values adjusted for inflation.

Credits by State (Thousands)							
Year	California ¹	Colorado	Delaware	Maryland	North Carolina ²	Virginia	Average Increase
<i>1st</i>	\$8,252	\$4,381	\$260	\$190	\$1,128	\$2,217	--
<i>2nd</i>	\$8,752	\$8,494	\$0	\$384	\$2,121	\$3,502	41.4%
<i>3rd</i>	Suspended	\$10,135	\$55	Not available	\$1,783	\$4,973	15.1%
<i>4th</i>	Not available	\$35,000	\$90	Not available	\$860	Not available	85.7%
							47.4%
1) Program suspended midway through 2nd year (2002). 2nd year value is estimated.							
2) Began in 1983, but remained a test program with very low incentives until 1989. 1st Year represents 1989.							

Analysis of other states' programs suggest that participation levels depend primarily upon their ability to attract donations from cash poor and land rich participants, such as farmers and ranchers. Although these groups may be most likely to desire the protections of a conservation easement, they also tend to have lower incomes. To such landowners, not only is an income tax credit little incentive, but the administrative and legal costs of setting up an easement or donation are prohibitive.

California directly pays all donation or easement transaction costs. North and South Carolina offer reimbursement, further tax credits, or charitable deductions for transaction costs. Colorado, Virginia, and South Carolina allow credits to be transferred (sold). High-income participants buy credits at a slight discount, saving on their own income taxes and providing low-income participants with immediate financial reward. However, credit transfers do create associated administrative costs for the states. Of the states mentioned here, only South Carolina's program has experienced low participation. This result may be due to its cap on compensation per acre.

This bill most resembles Delaware's and Maryland's programs, in that it neither covers transaction costs nor allows credit transfers. Participants in these programs tend to be fewer, mostly land investors who sell certain parcels to raise the value of surrounding lands.

Local Government Impact

Incorporated cities and towns receive a percentage of individual and corporate income taxes as urban revenue sharing. Under current law, the urban revenue sharing percentage will be 15% in FY 2005 and thereafter. Urban revenue sharing distributions are based on tax collections from 2 years prior. Hence, using the ranges explained above, local governments would lose between \$28,500 and \$1,237,800 starting in the third year of the program. The most likely impact is on the lower side of the range. It is probable that this revenue loss will increase by roughly 50% every year for the first few years of the program.